



DEFENSE CONTRACT AUDIT AGENCY
DEPARTMENT OF DEFENSE
8725 JOHN J. KINGMAN ROAD, SUITE 2135
FORT BELVOIR, VA 22060-6219

IN REPLY REFER TO

PPD 730.5.27

October 2, 2002
02-PPD-072(R)

MEMORANDUM FOR REGIONAL DIRECTORS, DCAA
DIRECTOR, FIELD DETACHMENT

SUBJECT: Audit Guidance on Performing Accounting System Audits at Nonmajor Contractors After Contract Award

Summary

We have developed a new audit program for performance of accounting system audits at nonmajor contractors after contract award, and a new shell audit report for reporting the results of that audit (enclosures). The audit program and shell report should be used for all assignments initiated after the date of this memorandum. Use on in-process assignments is also recommended. The audit effort for audits of nonmajor accounting systems performed after contract award should be charged to activity code 11070, rather than activity code 17740. The November 2002 release of the Audit Planning and Performance System (APPS) will be revised to allow auditors to choose a sub-activity type when performing audits of contractors' accounting systems under assignment code 11070. The sub-activity types for code 11070 will be either (1) audits of nonmajor contractors' accounting systems (procedures for accumulating costs under government contracts) after contract award or (2) full scope audits of contractors' accounting system internal controls. Full audits of contractors' accounting and billing systems internal controls will continue to be performed using SAPs APACTG, Reviewing and Reporting on the Contractor's Control Environment and Overall Accounting Controls and APBILL, Reviewing and Reporting on Contractor Billing System and Related Internal Controls.

Background

Previously, the Agency did not have a separate audit program for performing audits of nonmajor contractor accounting systems, including procedures for billing costs on government contracts, after contract award. During the Fiscal Year 2000 President's Council of Integrity and Efficiency (PCIE)-based QA reviews, it was noted that several FAOs had performed audits of nonmajor contractors' accounting and billing systems after contract award using the NMAPSYS accounting and billing system modules (Preaward Accounting System Survey). However, the FAOs had issued audit reports based on the 11070PRT and 11010RPT shell audit

reports which are intended for reporting the results of full-scope accounting and billing internal control audits using the Agency's Internal Control Audit Planning Summary (ICAPS) process. The shell audit reports 11070RPT and 11010RPT do not accurately reflect the audit procedures performed in the NMAPSYS accounting and billing system modules. The procedures in NMAPSYS are not sufficient to provide a basis to opine on the key control activities and objectives that comprise a full-scope audit of internal controls. Since auditors are being requested to perform audits of contractors' accounting systems, including procedures for billing costs on government contracts, after contract award, we have developed a separate audit program and shell audit report for such assignments.

Audit Guidance

For nonmajor contractors, audits of the full system of internal controls may not be warranted (CAM 5-111, Auditing Internal Controls at Nonmajor Contractors). We have developed a new audit program for performance of accounting system audits at nonmajor contractors after contract award that does not include an audit of the full system of internal controls. This new program provides procedures sufficient for expressing an opinion on whether the contractor's accounting system is adequate for accumulating costs on government contracts, including adequate procedures for billing costs on government contracts (Enclosure 2). To assist the auditor in reporting the results of the new nonmajor accounting system audit, we developed a new shell audit report (Enclosure 1).

The November 2002 release of the APPS will be revised to allow auditors to choose a sub-activity type when performing audits of contractors' accounting systems under assignment code 11070. The sub-activity types for code 11070 will be either (1) audits of nonmajor contractors' accounting systems (procedures for accumulating costs under government contracts including billing procedures) after contract award or (2) full-scope audits of contractors' accounting system internal controls.

Questions have been raised regarding the procedures to use to determine, **after contract award**, whether a nonmajor contractor has an adequate accounting system for participation in the direct billing program (CAM 6-1007.3a). As discussed in CAM 6-1007.4, auditors should generally not initiate a separate audit to determine the contractor's eligibility for direct billing because the information necessary to make this determination should be available in the permanent files. However, if the permanent file does not contain the necessary information, auditors should use the new accounting system audit program for nonmajor contractors (Enclosure 2) to determine whether the contractor has an adequate accounting system for participation in the direct billing program. To avoid any confusion on the performance of an audit of the billing procedures of a nonmajor contractor, the APPS for activity code 11010 (billing system audits), will be revised to include a drop-down box directing that audits of nonmajor contractor billing procedures not including audit of internal controls be performed under activity code 11070.

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At Nonmajor Contractors After Contract Award

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Full audits of contractors' accounting and billing systems internal controls, including audits of nonmajor contractors when warranted, will continue to be performed using SAPs APACTG, Reviewing and Reporting on the Contractor's Control Environment and Overall Accounting Controls and APBILL, Reviewing and Reporting on Contractor Billing System and Related Internal Controls.

Closing Remarks

FAO personnel should direct questions to the region. Regional personnel may direct questions to Ms. April Stephenson, Chief, Policy Programs Division at (703) 767-2270.

/Signed/
Robert DiMucci
Deputy Assistant Director
Policy and Plans

Enclosures – 2

1. New Shell Audit Report for Nonmajor Contractor Accounting System Audit
2. New Audit Program for Nonmajor Contractor Accounting System Audit

DISTRIBUTION: C



DEFENSE CONTRACT AUDIT AGENCY

AUDIT REPORT NO. XXXX-XXXXX11070XXX



[Date]

PREPARED FOR: Administrative Contracting Officer
ATTN:
[Address]

PREPARED BY: [FAO Name]
[FAO Address]
Telephone No.
FAX No.
E-mail Address *dcaa-faoxxx@dcaa.mil*

SUBJECT: Accounting System Audit

REFERENCES: ACO: Case No. XXX-XX(XX)-XX

CONTRACTOR: [Contractor Name]
[Contractor Address]

REPORT RELEASE RESTRICTIONS: See Page [number]

CONTENTS: Subject of Audit
Executive Summary
Scope of Audit
Results of Audit
Contractor Organization and Systems
DCAA Personnel and Report Authorization
Audit Report Distribution and Restrictions

Page

SUBJECT OF AUDIT

As you requested on [insert date of request], we evaluated [Contractor name]'s ([short name]) accounting system as of [insert date audit fieldwork was completed] to determine whether it is adequate for accumulating costs under Government contracts and whether the billing procedures are adequate for the preparation of cost reimbursement claims, i.e., interim public vouchers and progress payments.

[Short name] is responsible for establishing and maintaining an adequate accounting system for accumulating costs under Government contracts. Our responsibility is to express an opinion on the adequacy of the accounting system based on our examination.

EXECUTIVE SUMMARY

If applicable (CAM 10-210.3), this section gives a brief overview of significant audit findings. Refer to 10-406 for examples. Below is an example of how the section may read when the system is inadequate in part.

The contractor's accounting system is inadequate in part. Our examination disclosed [insert number of deficiencies] significant deficiencies in [insert contractor's name] accounting system that could result in misstated costs. As a result, we recommend disapproval of these portions of [insert contractor's name] accounting system.

SIGNIFICANT ISSUES

- [insert summary of significant issues/deficiencies]
- [if applicable][Insert contractor's name] agrees and is taking aggressive action to correct these deficiencies.

SCOPE OF AUDIT

Except for the qualifications discussed below (omit if there is no “Qualifications” section within the “Scope” paragraph), we conducted our examination in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the examination to obtain reasonable assurance about whether the data and records examined are free of material misstatement. An examination includes:

- obtaining an understanding of internal controls for accumulating and billing costs under Government contracts;
- determining if the internal controls are adequate as documented and described;
- examining, on a test basis, evidence supporting the amounts and disclosures in the data and records reviewed;
- assessing the accounting principles used and significant estimates made by the contractor;
- evaluating the overall data and records presentation; and
- determining the need for technical specialist assistance [*and quantifying the results of a government technical evaluation*].

We evaluated the accounting system using the applicable requirements contained in:

- Federal Acquisition Regulation (FAR);
- *Defense FAR Supplement (DFARS)*;
- *Cost Accounting Standards [if applicable]*; and
- *Industry or Technical Guides. [Identify any applicable guides actually used]*

Our examination included an evaluation to determine if the accounting system provides for the following procedures:

- *direct and indirect costs are appropriately identified, accumulated, and reported;*
- *unallowable costs are appropriately identified and segregated;*
- *indirect costs are allocated equitably and consistently to contracts and other cost objectives;*
- *direct and indirect labor costs are identified to intermediate or final cost objectives by the timekeeping system and charged to appropriate cost objectives by the labor distribution system.*
- *indirect billing rates are acceptable to the contracting officer or contract auditor in accordance with FAR 42.704;*
- *cost information for billings is based on currently posted accounting data;*
- *subcontractor and vendor costs are paid in accordance with subcontract and invoice terms and conditions and ordinarily paid prior to the contractor’s next payment request to the government; and*
- *contract billings are reviewed by management to assure compliance with contract terms and provisions, e.g., frequency of billings, special withholding provisions, contract unallowables, etc.*

Our examination was performed from [*fieldwork starting date*] to [*fieldwork completion date*].

We believe that our examination provides a reasonable basis for our opinion.

Conclude the Scope section with the Inherent Limitations paragraph:

Our examination did not include tests to determine internal controls are in operation or operating effectively. Because of inherent limitations in any internal control, misstatements due to error or fraud may occur and not be detected. Also, accounting system internal controls are subject to the risk that the internal control may

become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

QUALIFICATIONS

Any external factors that restrict or limit the scope of the audit should be clearly described within the scope of audit section under a separate heading entitled “Qualifications” (See 10-407e and 10-210.4). Internal decisions to limit the audit scope are not “qualifications.” When necessary to avoid user misunderstanding, scope limitations should be briefly described within the scope of audit section.

RESULTS OF AUDIT

In our opinion, [except for the (cite the qualification and the potential impact on the results)] [short name’s] accounting system is [adequate, inadequate, or inadequate in part] for accumulating and billing costs under Government contracts..

The remaining portion of this section, excluding the last paragraph, should summarize the conditions and recommendations found during the audit. Refer to 10-408.2(b) for additional information. Below is an example of how the paragraph may read when significant deficiencies are found.

Our examination noted certain significant deficiencies in the design or operation of the accounting system. In our judgment, these deficiencies could adversely affect the organization's ability to record, process, summarize, and report costs in a manner that is consistent with applicable Government contract laws and regulations. These conditions are detailed in the “Statement of Condition(s) and Recommendation(s)” on page [xx] and summarized below:

Below is an example of how the paragraph may read when the deficiencies found are not considered significant, but correction would enhance the system.

During the course of our examination, we also noted other matters involving the accounting system which, although not considered to be significant deficiencies at this time, we believe should be communicated to the management of [insert contractor's name]. These matters are detailed in the “Suggestions to Improve the System” appendix included on page [xx] of this report.

Our examination was limited to determining whether [Contractor’s name]’s [short name] accounting system is adequate for accumulating costs under Government contracts. We did not perform a comprehensive examination of the contractor’s overall accounting system and its related internal controls. Accordingly, we express no opinion on [short name]’s system of internal controls taken as a whole.

Conclude the Results of Audit section of the report narrative with the following additional remarks, as appropriate.

We discussed the results of our examination with [Name and Title of contractor representative] in an exit conference held on [Date]. [If there are system deficiencies, summarize the contractor's reaction here.] [If the evaluation requires a Statement of Condition(s) and Recommendation(s) be furnished to the contractor, include the following statement]. We provided a draft copy of the [Results of Audit and Statement of Condition(s) and Recommendation(s)] to the contractor's representative at the exit conference. [When the contractor provides a formal, written response, it should be referenced within the Results of Audit section and included as an appendix to

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the report. Put any rebuttals in the "Auditor's Response" portion of the explanatory notes and include the following statement.] The complete text of the contractor's response appears as Appendix [X].

Use the guidelines provided in 10-210.5d(2) to prepare any other additional remarks.

STATEMENT OF CONDITION(S) AND RECOMMENDATION(S)

The statements of condition(s) and recommendation(s) are an integral part of the results of audit and should follow the narrative described in the Results of Audit. Alternatively, they may be included in attached appendixes. Refer to 10-409 for detail on the presentation criteria and construction.

CONTRACTOR ORGANIZATION AND SYSTEMS

This section should furnish pertinent information necessary for the reader to understand the area audited. Refer to 10-410 for additional information. An example of wording for this section for a postaward accounting system audit follows:

1. Organization:

[Short name] was incorporated in the state of [name state] on [date]. Sales for fiscal year ended [date] were \$XX million. [Short name] has two major operations. Describe organization. [Short name's] sales are about equally divided between the two organizations.

2. Accounting System:

[Short name's] accounting period is from [date] to [date]. [Short name] maintains an accounting system on the [accrual] basis in accordance with generally accepted accounting principles. [Short name's] accounting system is posted on a current basis. Appropriate adjusting entries are made at the end of each month and at year end. [Short name] prepares financial statements on a semiannual and annual basis. The annual financial statements are not audited by external CPAs.

[Shortname] maintains a job cost accounting system which is fully integrated in the overall accounting system, wherein contracts are assigned individual project numbers and direct costs are identified and charged to those numbers. Indirect costs are identified with and accumulated under individual departments, which in turn are identified to the various indirect cost pools. Indirect expenses are recorded and billed to projects using predetermined rates. The predetermined rates are adjusted to actual rates at year end. The following schedule describes [shortname's] indirect cost pools and related allocation bases, and the type of effort normally charged direct and indirect:

Indirect Cost Pools and Allocation Bases:

<u>Indirect Cost Pool</u>	<u>Allocation Base</u>
Manufacturing Overhead	Total manufacturing direct labor dollars
Software Dev. Overhead	Total software dev. direct labor dollars
G&A Expense	Total incurred costs, excluding G&A expenses and direct subcontract costs
Fringe Benefit	Total labor dollars
Subcontract Management	Total direct subcontract costs

The Following Effort Is Normally Charged Direct:

- Direct time of direct labor employees
- Premium (overtime, shift, field) time of direct labor
- Raw material, purchased parts and subcontracted items
- Travel expenses incurred by direct employees
- Freight charges for direct raw materials, purchased parts, and subcontracted items
- Purchase, fabrication or rental of special tooling or test equipment
- Professional services and consultant fees
- Temporary help to perform direct effort

The Following Effort Is Normally Charged Indirect:

- Management, supervisory, and clerical salaries
- Indirect time of direct employees

- *Premium (overtime and shift) of indirect employees*
- *Social Security, unemployment insurance, workmen's compensation, group insurance, pension expense, vacation and holiday pay*
- *Guard expense*
- *Travel expense associated with indirect labor effort*
- *Other expenses such as general operating supplies, depreciation,*
- *employee wellness programs, utilities, rental costs of facilities,*
- *and general purpose equipment*

3. Billing System:

[Short name's] has about 15 employees who work in the billing department. The billing department is responsible for preparing all cost reimbursement claims, including public vouchers, progress payment requests and invoices, submitted to the government. Billings are prepared directly from the cost accounting records which are reconcilable by cost element for all cost-reimbursable work. Direct labor hours are included in the cost accounting records for labor hours, time and material and level of effort contracts. The contractor's indirect billing rates are established in accordance with FAR 42.704. The contractor participates in the DCAA direct billing program and electronically submits interim vouchers and progress payments to Defense Finance and Accounting Services paying offices via the WINs Internet payment initiate. During last Fiscal Year 20XX, [Short name] billing department submitted about \$25 million of cost reimbursement billings to the government.

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DCAA PERSONNEL

Primary contacts regarding this audit:

Telephone No.

[name, title]

[number]

[name, title]

[number]

Other contacts regarding this audit:

[name, title]

[number]

FAX No.

[Fax no.]

E-mail Address

dcaa-faoxxxx@dcaa.mil

General information on audit matters is available at <http://www.dcaa.mil/>

RELEVANT DATES

Use this section in demand assignments. These should include, at a minimum, the dates of ACO and PCO requests and the dates of any extensions. The format should facilitate computation of elapsed days (see 10-211 and Fig. 10-2-3).

AUDIT REPORT AUTHORIZED BY:

[Name]

[Title]

[FAO]

AUDIT REPORT DISTRIBUTION AND RESTRICTIONS

DISTRIBUTION

Administrative Contracting Officer

E-mail Address
[E-mail address]

[Contractor name]

(Copy furnished thru ACO)

[Contractor address]

RESTRICTIONS

1. Information contained in this audit report may be proprietary. It is not practical to identify during the conduct of the audit those elements of the data which are proprietary. Make proprietary determinations in the event of an external request for access. Consider the restrictions of 18 U.S.C. 1905 before releasing this information to the public.
2. Under the provisions of Title 32, Code of Federal Regulations, Part 290.7(b), DCAA will refer any Freedom of Information Act request for audit reports received to the cognizant contracting agency for determination as to releasability and a direct response to the requestor.
3. Do not use the information contained in this audit report for purposes other than action on the subject of this audit without first discussing its applicability with the auditor.

DEFENSE CONTRACT AUDIT AGENCY

**AUDIT PROGRAM FOR ACCOUNTING SYSTEM AUDITS AT
NONMAJOR CONTRACTORS**

Contractor's Name: _____

Assignment Number: _____

Field Audit Office: _____

Date Assigned: _____

Auditor Assigned: _____

Supervisor's Signature Indicating Approval
(Obtain Signature Before Starting Audit)

PURPOSE AND SCOPE

To provide general guidance for the audit of the adequacy and suitability of nonmajor contractor accounting systems and practices for accumulating and billing costs under Government contracts. An accounting system is adequate if its procedures are adequate to protect the Government's interest, and is suitable if it is in substantive compliance with CAS (whether or not the contractor is CAS-covered). This program is intended to be used for the performance of accounting system audits at nonmajor contractors subsequent to contract award. Accounting system surveys performed at the request of a contracting officer to determine the adequacy of the accounting system for a prospective contract should be performed under code 17740, Preaward Surveys at Nonmajor Contractors.

The audit should be directed to determining the adequacy of the accounting system for segregation and billing of costs as required by the contractor's contracts. Update the short internal control questionnaire (SHORTICQ) as appropriate. Audits of accounting system internal controls for nonmajor contractors are generally not required, unless the risk warrants an audit. The audit steps performed in this audit program are not sufficient to provide a basis to opine on the key control activities and objectives that comprise an audit of internal controls. If the auditor determines that an audit of internal controls is required, code 11010 should be used for billing system internal controls (audit program APBILL) and 11070 for accounting system internal controls (audit program APACTG), the APPS option for audit of internal controls.

B. PRELIMINARY AUDIT STEPS

1. Review audit request for matters of particular interest to acquisition officials.

2. Review permanent files for prior surveys, results of related audits, currency of labor (MAAR 6) review, SHORTICQ data, and relevant ICAPS information. Permanent files or completed audit case files may provide sufficient data to prepare an affirmative audit report without a field visit. Reference to audit program at the appropriate step.

3. Obtain a current organization chart.

4. Obtain a current Chart of Accounts with descriptions of charges, which can be made to each account (Text of Accounts).

5. In planning and performing the audit, consider fraud risk indicators specific to the audit being performed. The principal sources for the applicable fraud risk indicators are:

- Handbook on Fraud Indicators for Contract Auditors, Section II (IGDH 7600.3, APO March 31, 1993) located at www.dodig.osd.mil/PUBS/index.html.
- CAM Figure 4-7-3

Document in working paper B any identified fraud risk indicators and your response/actions to the identified risks (either individually, or in combination). This should be done at the planning stage of the audit as well as during the audit if risk indicators are disclosed. If no risk indicators are identified, document this in working paper B.

6. Conduct an entrance conference as outlined in CAM 4-302, with particular emphasis on:

- (1) Any changes in the accounting system processing job stream since the last audit.
- (2) The contractor's monitoring process to ensure that established manual and computerized controls are functioning as intended.
- (3) Any identified weaknesses which may have been reported and related follow-up actions taken.

7. Using the information obtained in the above steps, prepare an initial risk assessment to determine the scope of the audit (W/P B).

C. DETAILED AUDIT STEPS

1. Determine that the contractor's accounting system is adequate for accumulating and segregating costs use the following steps (expand as necessary depending on the risk assessment).
 - a. Proper segregation of costs. Verify that controls exist to preclude direct charging of indirect expense.
 - b. Direct costs by contract. Verify that the contractor has either a subsidiary job cost ledger or account receivable ledger which accumulates costs by contract.
 - c. Allocation of indirect costs. Verify that indirect costs are accumulated in logical groupings and determine that the groupings are allocated based on benefits accrued to intermediate and final cost objectives.
 - d. Accumulation of costs under general ledger control. Verify that the contractor's job cost ledger and other books of account are reconcilable and currently posted to the general ledger control accounts.

		<u>Staff Hours</u>	<u>W/P</u>	Auditor's
		<u>Budget</u>	<u>Ref.</u>	Initials
		<u>Actual</u>		and Date
				<u>Completed</u>
e.	Timekeeping system. Verify that labor is charged to intermediate and final cost objectives based on timecards completed and signed by employees. The timecards should be signed and approved by employee supervisors.			
f.	Labor distribution. Verify that labor cost distribution records are reconcilable to payroll records and that labor distribution records trace to and from the cost accumulation records in labor subsidiary or general ledger accounts.			
g.	Interim determination of costs: Determine that the contractor posts contract costs at least monthly to books of account.			
h.	Exclusion of Unallowables: Verify that the cost ledgers identify expense categories in sufficient detail to isolate unallowable costs. Review the adequacy of the contractor's procedures for identification and exclusion of unallowable cost (FAR 31.201-6).			
i.	Costs by Contract Line Item: Is the contractor's accounting system accumulating costs at the requisite level of detail, as required by the contract terms and conditions.			
j.	Pre-production Costs (applies primarily to manufacturing contracts): Are these costs routinely segregated to assist in repricing or follow-on contract pricing?			
k.	Adequate, Reliable Data: Is the system internally consistent for all work in house? Can reconciliations be readily prepared, or are extensive adjustments required?			

2. To determine that the contractor's billing system procedures for preparing cost-reimbursement claims are adequate (CAM 6-1006), use the following steps (expand as necessary depending on the risk assessment).

- a. Limitation of Costs: Can the interim indirect expense rates be readily calculated from the books of accounts, and are the interim rates routinely monitored? Are the indirect cost pools grouped and subtotaled within the overall expense records? Is the cost accounting system formally documented, with a written description of the contents of bases and pools?

Who is responsible for monitoring total contract expenditure against budget, and how frequently is this reviewed? Are controls in place to ensure compliance with the reporting requirements of FAR 52.216-16 or FAR 52.232-20, -21 and -22?

- b. Progress Payments (including public vouchers): Are contractor's interim billings of direct cost prepared directly from the books and records, excluding unallowable costs and (except for small businesses) accruals other than payroll? Can invoices be reconciled to the cost accounts for both current and cumulative amounts claimed? Are indirect costs billed at approved rates? (CAM 6-1006)
- c. If the contractor does not have indirect billing and/or bidding rates, obtain a submission. If the rates have not been approved (FAR 42.704), review the reasonableness of the submitted rates.

- (1) Are the rates acceptable for billing purposes? Reference the workpackage where the rates were reviewed.
- (2) Have the rates been adjusted for voluntary deletions and historic unallowable costs?
- (3) Are the rates consistent with:
 - (a) The contractor's budgetary data (if supported by cost element detail?)
 - (b) The actual rates for the last completed fiscal year?
 - (c) The year-to-date experienced rates in the current year?
- (4) If not:
 - (a) Can the differences be explained?
 - (b) If so, is it likely that the proposed rates will be the final rates, or should the rates be revised?
 - (c) If the differences are both significant and unexplained, the contractor has an estimating system deficiency which should be reported, and the auditor should develop appropriate rates.
- d. If the contractor's billing rates have been approved, obtain a sample of current invoices (public vouchers and progress payment requests) and verify that indirect billings are the lesser of the approved rates or the rates specified in the contract.

	<u>Staff Hours</u>		<u>W/P</u>	Auditor's
	<u>Budget</u>	<u>Actual</u>	<u>Ref.</u>	Initials
				and Date
				<u>Completed</u>
e.	Verify that interim billings are either prepared directly from the cost accounting records or from other records which are reconciled to the cost accounting records by cost element for all cost-reimbursable work, and that D/L hours are included in this record for labor hour, T&M, and level-of- effort contracts. If not, the billing system procedures for preparing cost-reimbursement claims may be unacceptable. Obtain a full description of the billing method for each expenditure (of hours or dollars). Consult your supervisor.			
f.	Verify that the contractor has procedures to ensure that subcontractor and vendor costs are only included in billings if payment to the subcontractor or vendor will be made in accordance with the terms and condition of the subcontract or invoice and ordinarily prior to submission of the contractor's next payment request to the government.			
g.	Evaluate procedures in place for assuring prompt payment to vendors; accounting for discounts taken/lost; and calculating the accounts payable turnover in days.			
h.	Evaluate the procedures on items issued from inventory:			
	(1) Can they be traced to issuance documents?			
	(2) Are they priced in accordance with contractor's disclosed practices? (update compliance control schedules for CAS 411 and 407 if applicable).			
	(3) Are they issued for current use rather than for intermediate holding?			

				Auditor's Initials and Date
		<u>Staff Hours</u>	<u>W/P</u>	
		<u>Budget</u> <u>Actual</u>	<u>Ref.</u>	<u>Completed</u>
i.	On a sampling basis, verify that direct labor hours per payroll can be traced to the labor distribution records and that direct labor has been billed at appropriate rates.			
j.	Identify controls which provide for review of contract billing provisions, including but not limited to:			
	(1) Restriction of billing frequency.			
	(2) Special withholding provisions.			
	(3) Contractual unallowable costs.			
k.	Verify that the contractor has procedures in place to ensure that interim vouchers include fixed fee and cost withholds in accordance with FAR 52.216-7 and 52.232-7, when appropriate.			
3.	Discuss deficiencies with supervisor.			
4.	Discuss findings and recommended corrective action with contractor representatives. Document these discussions.			
5.	Update the Short Internal Control Questionnaire (SHORTICQ).			

D. CONCLUDING AUDIT STEPS

1. Follow up and resolve open or partially completed items and summarize audit results.
2. Complete, index, and cross-reference W/Ps.
3. Discuss audit findings with supervisor. Hold and document exit conference.

	<u>Staff Hours</u>		<u>W/P</u>	Auditor's
	<u>Budget</u>	<u>Actual</u>	<u>Ref.</u>	Initials
				and Date
				<u>Completed</u>
4. Take appropriate action to effect correction of noted deficiencies. This may include additional audit review under an assignment in another audit area, noncompliance or system deficiency reports, cost suspension or disapproval, etc.				
5. If the contractor has EVMS-covered contracts, provide comments in the audit report on whether any findings are likely to impact the contractor's EVMS (10-408.b). Discuss findings and recommendations relating to the EVMS with the Contract Administration Office EVMS Monitor prior to issuance of the report. Immediately evaluate the impact of these findings on specific EVMS-covered contracts and provide the details in flash EVMS surveillance reports (11-209.2.e).				
6. Update the permanent file.				
7. If unsatisfactory conditions were noted, follow the guidance in CAM 4-800.				
8. Prepare draft report incorporating the contractor's comments and audit rejoinder.				
9. Closing actions should be performed in accordance with FAO procedures. These procedures may require either auditors or administrative personnel to perform various closing steps. Completion of these closing actions should be documented in the working papers and should include:				
<ul style="list-style-type: none"> • If the audit report has been electronically transmitted to the customer, file the signed original report in the audit working paper package. Otherwise, file a copy of the signed report. 				

- Include a printed copy of the final draft audit report, cross-referenced to the working papers, in the working paper package. The final draft report should include all substantive changes made to the original draft, with cross-referencing updated as necessary. It should differ from the final report only due to minor administrative changes (spelling, format, etc.) made during final processing.
- Include an electronic version of the acknowledgement letter in the audit working paper package.
- Include hardcopy printouts of the Administrative and Audit Working Papers indexes, including the supplemental listing of electronic files, in the working paper package.
- Ensure all working paper files are "read only" and, if necessary, compressed for final storage. Generally, current Agency software should be used to automatically modify all electronic files for storage.
- Two complete sets of electronic working papers must be prepared. The "original" set should be stored in the working paper package. The "archive" set is to be stored separately from the working paper package on removable media such as CD-ROM or diskette. If there will be a short-term need to access the working papers, a third, or "working" set should be stored so as to be available for reference, generally on the LAN. This set should be deleted when no longer needed.

			Auditor's
			Initials
			and Date
<u>Staff Hours</u>		W/P	
<u>Budget</u>	<u>Actual</u>	<u>Ref.</u>	<u>Completed</u>

- Verify that electronic files stored on removable media are not corrupted and can be unarchived.
- Securely enclose the “original” set of electronic files in the working paper package.

TOTAL